Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 7/18/2003

GAIN Report #HO3004

Honduras

Agricultural Situation

Domestic Agriculture Policies and USG Development Assistance

2003

Approved by:
Frank A. Coolidge, Agricultural Counselor
U.S. Embassy, Tegucigalpa
Prepared by:
Ana Gomez, Agricultural Specialist, Robin Matthewman, Economic Counselor and
Ray Waldron, Agricultural and Natural Resources Officer , USAID

Report Highlights:
For several years, Honduras has been suffering from a long-term agricultural cirsis caused by low commodity prices (particularly coffee), financial sector problems and periodic droughts, floods and insect infestations. The agriculture sector still plays a vital role in the Honduran economy, however. In 2002, agriculture accounted for 22 percent of GDP and employed 38% of the population. Fruits and vegetables have been the fastest growing segment of the market. Poultry, shrimp, African palm, melons, pineapple, plantain, cocoa and rice were diversification success stories have grown more slowly in recent years.

Includes PSD changes: No
Includes Trade Matrix: No

TABLE OF CONTENTS

Domestic Agriculture Policies . . . . Page 1 of 3

Agriculture Policy . . . . Page 1 of 3

Agricultural Finance . . . . Page 2 of 3

USG Assistance . . . . Page 2 of 3

Honduras

Domestic Agriculture Policies

For several years, Honduras has been suffering from a long-term agricultural crisis caused by low commodity prices (particularly coffee), financial sector problems, and periodic droughts, floods and insect infestations. The agriculture sector still plays a vital role in the Honduran economy, however. In 2002, agriculture accounted for 22 percent of GDP and employed 38 percent of the population. Fruits and vegetables have been the fastest growing segment of the market. Poultry, shrimp, African palm, melons, pineapple, plantain, cocoa and rice were diversification success stories but have grown more slowly in recent years. Proceeds from coffee exports are down dramatically; the historically low world coffee prices have also constituted a hard blow for subsistence farmers who depended on seasonal work in the coffee farms for cash income.

Agriculture Policy

Honduran agriculture policy focuses on diversification, expansion of technology (irrigation systems), and development of market-oriented, vertically integrated supply chains for agricultural products that will provide opportunities to small farmers. In October 2002, the government launched an Agriculture Ministry-led policy concertation process (roundtables) in which producers, farmers, other private sector representatives and the government discussed specific agricultural sector policies for 20 agricultural products. The "Food Chain Development" program has been charged with implementing these recommendations in stages. The first products to be addressed are coffee, corn and dairy products; these will be followed by rice, beans and horticultural products (fruits and vegetables). The recommendations for the remaining fourteen products will be implemented within three to five years.

For example, the recently formed Small Agriculture Program will organize small producers into agricultural associations or corporations and then provide these associations with support services. This program will assist farmers in six priority geographical locations.

The government and private sector are studying potential solutions to competitiveness problems in their current corn policy; the policy is viewed to be unsustainable but sensitive because of its importance to small and subsistence farmers. The Honduran private sector currently agrees to purchase locally produced white corn at high prices, and is supported in this by a price band system that keeps imported yellow corn prices high as well. The whole system is intended to take care of the subsistence farmers who cannot be competitive otherwise, but there are some indications that a substantial portion of the revenue from this absorption agreement goes to a few large farmers, at the cost of the various sectors that use corn as a feed grain or input. The corn price bands are also likely to be an important topic in the current U.S.- Central America Free Trade Agreement (CAFTA) negotiations.

An important GOH goal is clearing away obstacles to export of poultry to the United States. Both the private sector and the government believe that the Honduran poultry sector would be efficient and competitive (if they had the ability to sell breast meat in the U.S.). In November 2001, the Honduran government wrote to USDA Undersecretary Bill Hawks, asking that USDA recognize Honduras as free of avian diseases Newcastle, Laryngotracheities, Avian influenza and Salmonellosis.

Agricultural Finance

Several laws that provided financial support to the agriculture sector were adopted by the Honduran Congress between 2000 and January 2003. The objectives of these laws was to reactivate agricultural production, severely affected by the impact of Hurricane Mitch in late 1998 on the value of agricultural assets, the capacity of the sector to generate employment and income, and on the supply of exportable products. The measures taken by the government in this period included interest rate subsidies, loan rescheduling, forgiveness of some agricultural debt and new loan guarantees.

Negative results from these policies included an increase (rather than decrease) in farmer debt levels; substantial fiscal costs for the government; continued problems for banks with large agricultural loan portfolios; and increased loan repayment delinquency. Credit availability for the agricultural sector fell precipitously during the period, and agricultural production has remained stagnant.

To correct these problems, the Honduran government drafted, and the Honduran National Congress approved on April 23, 2003, Law 68-2003 (called the Agricultural Sector Financial Strengthening Law). The law consolidates the previous programs into one unified mechanism, in order to rationalize the credit programs, avoid additional contingent liabilities, relieve pressure on the banks with large outstanding agricultural portfolios and encourage the provision of new loans to the Honduran agriculture sector.

USG Assistance

USAID focuses its efforts on rural economic diversification, especially in rural areas, by promoting economic and financial policies to improve the investment environment, structural changes in productivity and marketing in competitive sectors, such as horticulture. Diversification from basic grains and low quality coffee grown at lower altitudes to higher value-added labor-intensive crops and products can provide substantial increases in net income to agricultural producers and processors and create new investment and employment opportunities for processors and transport in rural areas. USAID is also facilitating market linkages between growers and buyers, technology transfer to reduce costs and improve quality, and information on sanitary and phytosanitary standards to small and medium size enterprises and small farmers. These linkages provide alternative financing for small producers not currently eligible for bank loans. USAID/Honduras also works with banks and micro-finance institutions to facilitate increased access to credit.

Local currency proceeds from the USDA's FY03 Food for Progress 33,000 metric ton wheat donation will be used to support the Ministry of Agriculture's Food Chain Development and Small Agriculture programs, as well as APHIS sanitary/phytosanitary programs. A second FY03 Food for Progress donation of 4,000 metric tons of soybean meal through CARE will also support rural household income projects. These two Food for Progress Agreements are expected to generate $6.0 million and $880,000, respectively. A Food for Progress agreement was signed with TechnoServe on June 12, 2002. It called for the monetization of 9,000 MT of soybean meal. This provided roughly $1,850,000 for TechnoServe to implement technical and management assistance projects with farmers in the area around San Pedro Sula.

As part of the Hurricane Mitch Reconstruction effort, USDA supported the re-establishment of over 7,000 small farms that were hardest hit by Hurricane Mitch floods. Working with the Corps of Engineers and USAID, the agency built protection works, installed irrigation systems, and introduced and tested diversified crops. USDA also provided valuable information, advice, and training in crop forecasting using the PECAD model. This system provides the Minister of Agriculture with "early warning" information on basic grain producing areas of the country susceptible to droughts.